



Arizona Residual Market State Activity Report

Second Quarter 2018



Executive Summary

NCCI, as Pool and Plan Administrator of the Arizona Workers Compensation Insurance Plan, is pleased to provide the Second Quarter 2018 *Arizona Residual Market State Activity Report*.

Readers will notice that the order of our charts and tables has been reorganized, based on customer feedback. This will provide a more streamlined picture of the key measurement factors and issues relating to the operation of the Arizona Plan. Residual Market demographics contained in this report include:

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If you have any questions or comments about this report, please feel free to contact the individual listed below.

Sally Laub, Plan Administration

561-893-1174

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Residual Market Demographics

Residual Market Total Policies and Premium in Force

As of June 30, 2018—compared to prior year

Total number of Assigned Risk Plan policies and estimated premium volume in force reported as of the date listed above. The other exhibits in this report describe quarterly and year-to-date data.

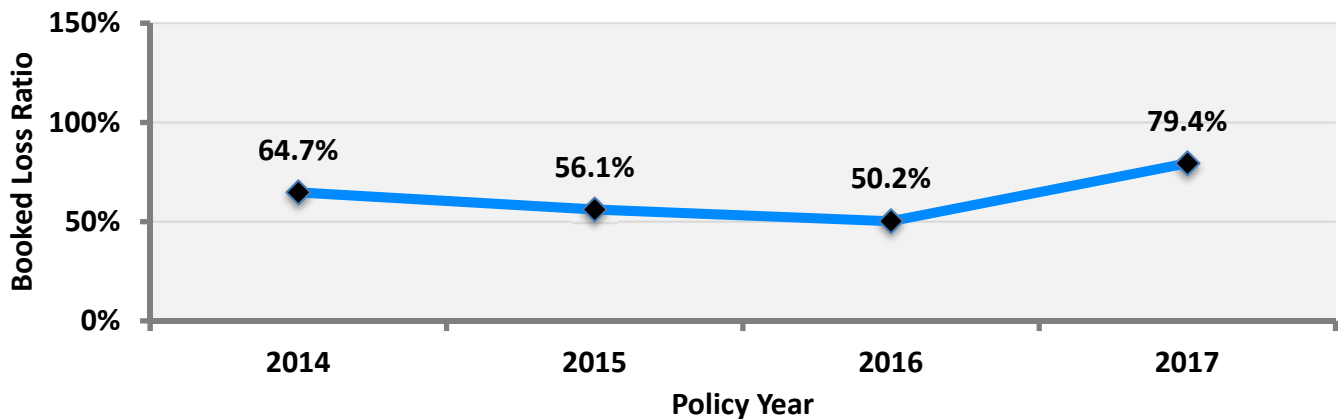
	2018	2017	2018 vs. 2017 #	2018 vs. 2017 %
Policy Count	5,676	5,970	-294	-4.9%
Premium Volume	\$36,123,034	\$40,345,333	-\$4,222,299	-10.5%



Residual Market Demographics

Arizona Residual Market Reinsurance Pool Booked Loss Ratio Policy Year Financial Results through 1st Quarter 2018 for 2017 and prior years*

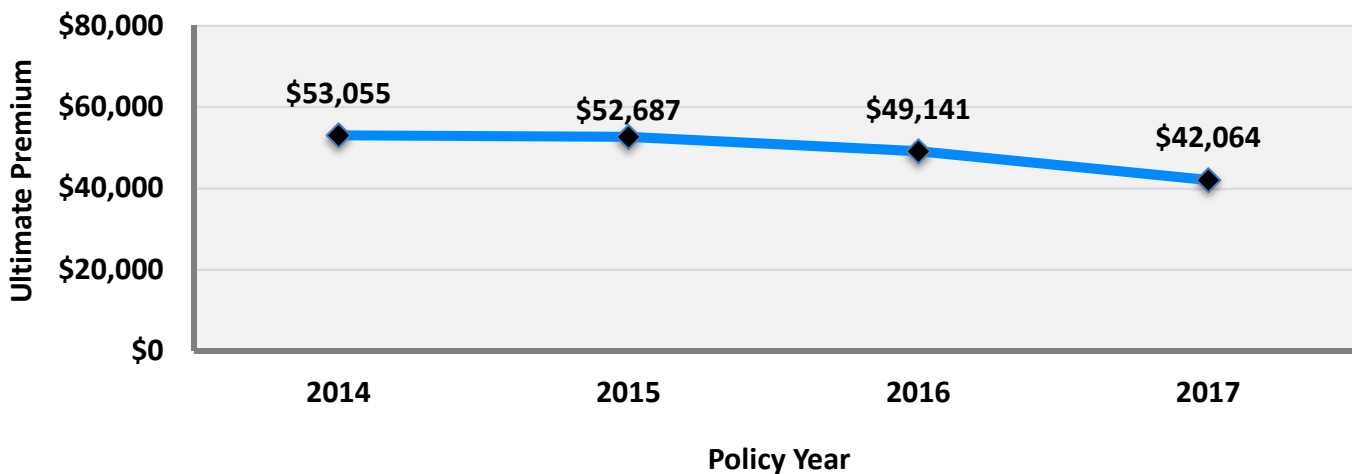
The ratio of total incurred losses to total earned premiums in a given period, in this state, expressed as a percentage.



Arizona Residual Market Reinsurance Pool Ultimate Net Written Premium (Projected to Ultimate) (000's)

Policy Year Financial Results through 1st Quarter 2018 for 2017 and prior years*

The premium charged by an insurance company for the period of time and coverage provided by an insurance contract in this state.



* Second Quarter 2018 data will be available the end of October 2018 due to the timing of data reporting

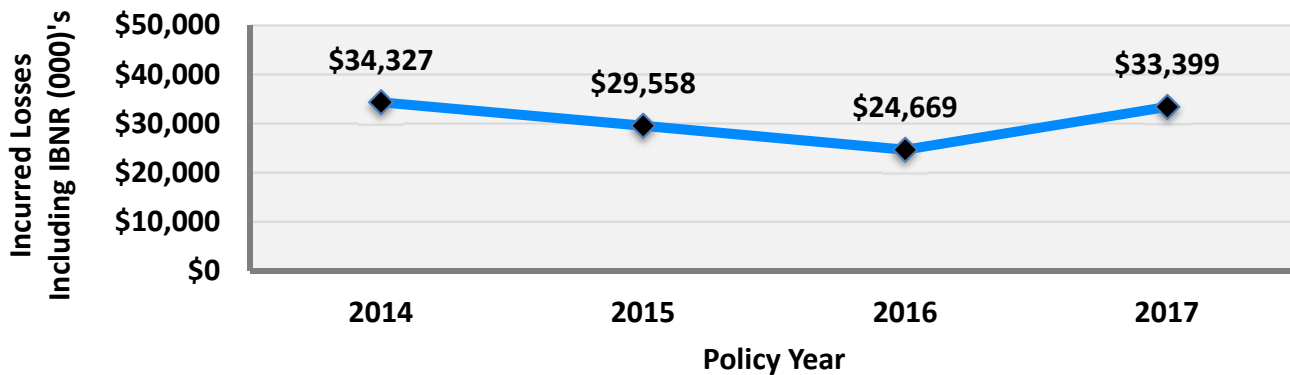


Residual Market Demographics

Arizona Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Incurred Losses

Policy Year Financial Results through 1st Quarter 2018 for 2017 and prior years*

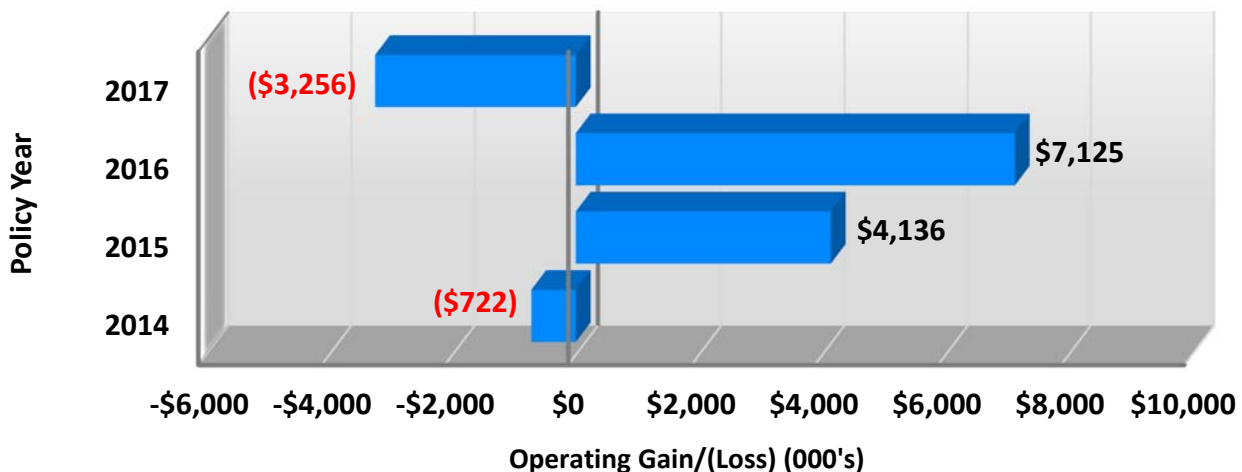
Policy year incurred losses reflect paid losses, case reserves and IBNR reserves for policies written in a particular policy year in that state.



Arizona Residual Market Reinsurance Pool Net Operating Results (Projected to Ultimate) Estimated Net Operating Gain/(Loss) (000's)

Policy Year Financial Results through 1st Quarter 2018 for 2017 and prior years*

The financial statement presentation that reflects the excess of earned premium over incurred losses, less all operating expenses, plus all investment income in that state.



* Second Quarter 2018 data will be available the end of October 2018 due to the timing of data reporting



Residual Market Demographics

Collections/Indemnification

The following shows a comparison of gross written premium and uncollectible premium reported in Arizona for Policy Years 2014-2018, obtained through NP-4 and NP-5 reports including traumatic and black lung claims, evaluated through 1st Quarter 2018.

Policy Year	Gross Written Premium	Uncollectible Premium	Percentage
2014	57,281,505	4,226,169	7.4%
2015	55,823,329	3,136,053	5.6%
2016	52,766,980	3,354,309	6.4%
2017	40,623,343	*	N/A
2018	7,234,621	*	N/A

* The uncollectible premiums provided are reported by the servicing carriers on a quarterly basis. Uncollectible premium is generally reported up to 24 months after the policy expiration date due to audit, billing, and collection requirements. Therefore, the uncollectible premium data has not yet developed for the more recent policy years.



Residual Market Demographics

Voluntary Coverage Assistance Program Second Quarter Data through June 30, 2018

The volume of assigned risk applications redirected to the voluntary market through NCCI's **VCAP[®] Service**. The following shows the results **VCAP[®] Service** has provided during Second Quarter 2018.

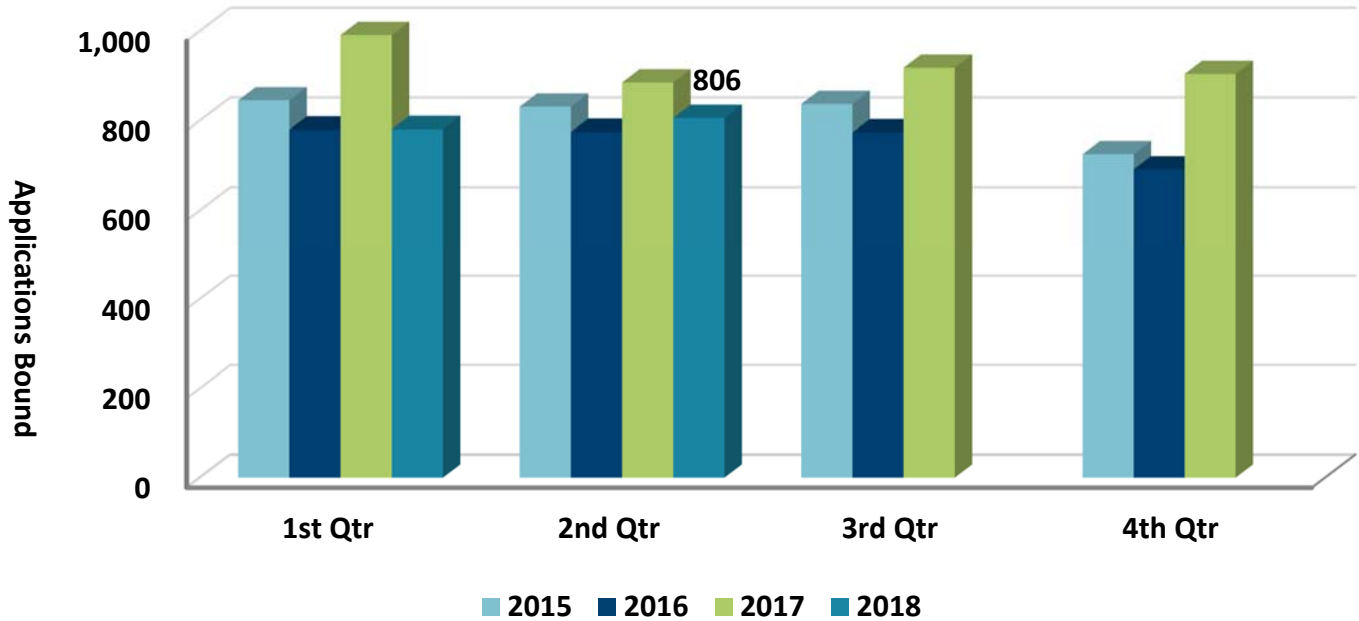
Number of Applications Reviewed by VCAP[®] Service	822
Number of VCAP[®] Service Matches	674
VCAP[®] Service Offers as a % of Matches	2.97%
Number of Confirmed VCAP[®] Service Policies	20
Confirmed VCAP[®] Service Policies as a % of Applications Reviewed	2.43%
Savings as a % of Redirected Assigned Risk Premium	15.43%



Residual Market Demographics

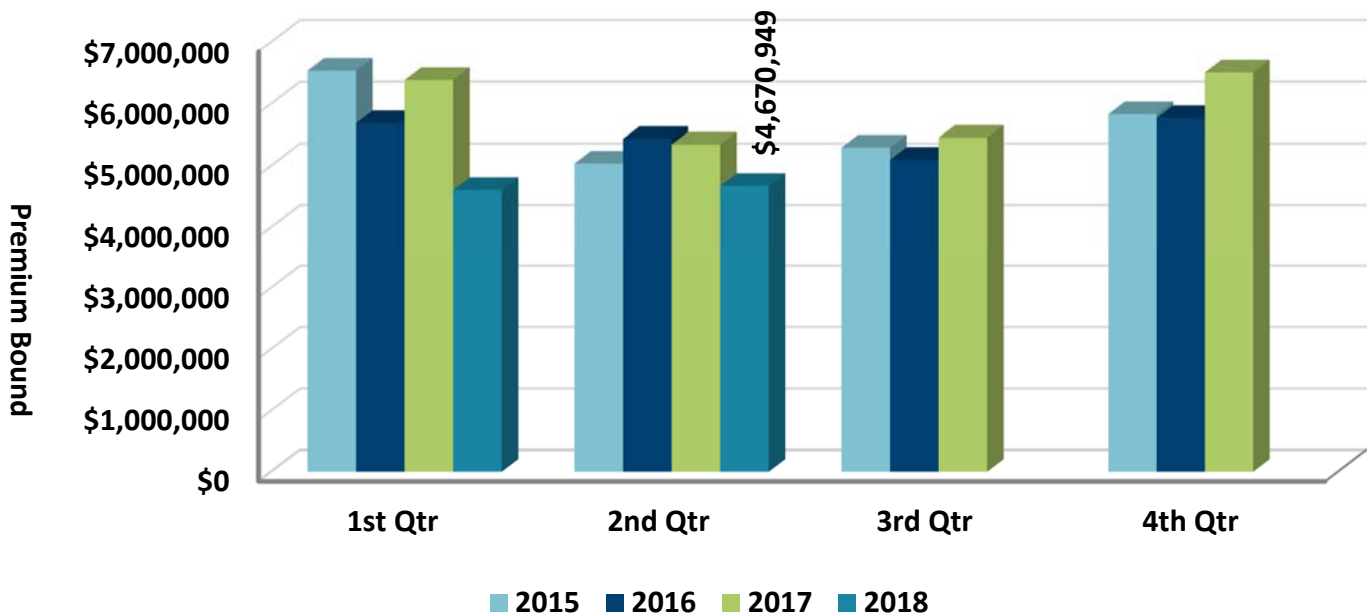
Total Applications Bound — 2015 vs. 2016 vs. 2017 vs. 2018

The number of applications—both new and churn—that are assigned to a Servicing Carrier or a Direct Assignment Carrier (if applicable).



Total Application Premium Bound — 2015 vs. 2016 vs. 2017 vs. 2018

The total estimated premium on bound applications—both new and churn—that are assigned to a Servicing Carrier or a Direct Assignment Carrier (if applicable).



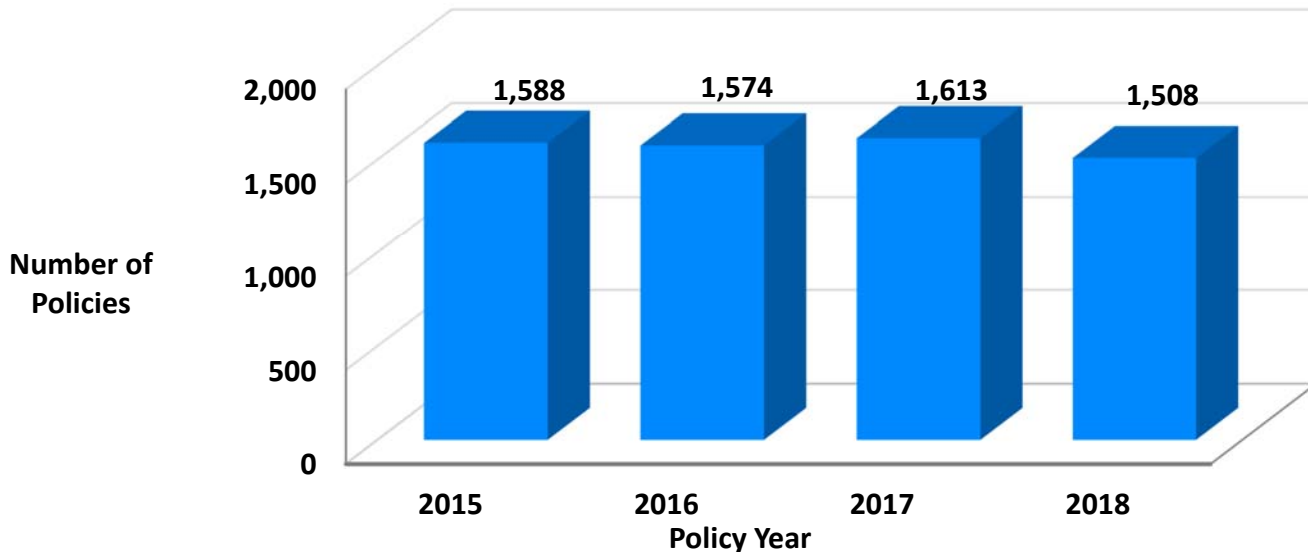


Residual Market Demographics

Residual Market Total Policy Counts

Second Quarter Data for Policies Reported through June 30, 2018

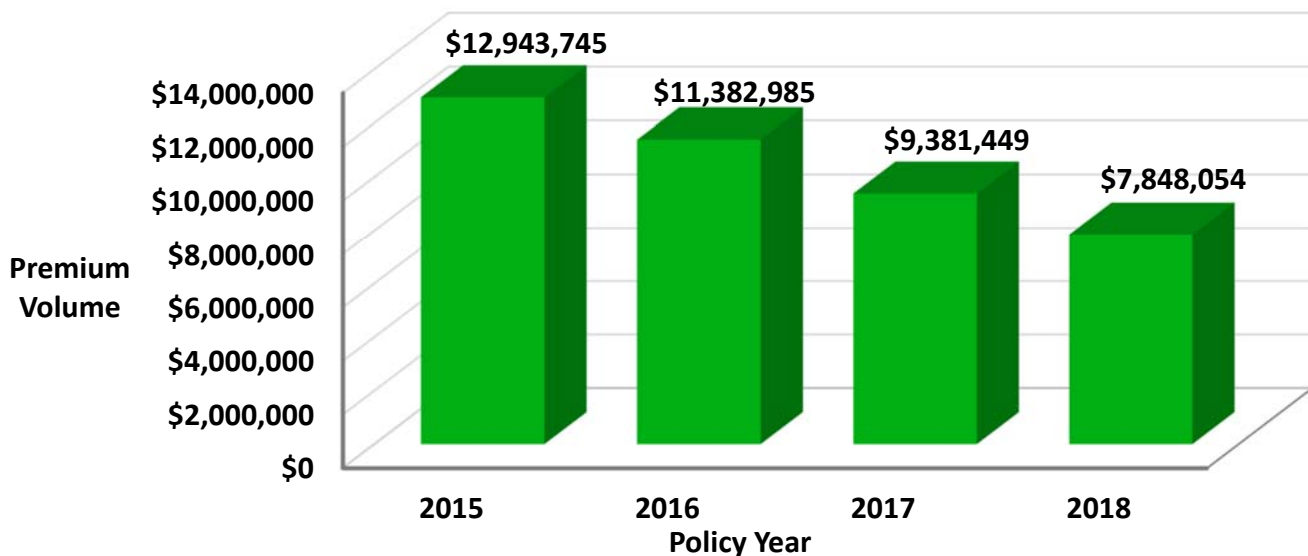
Total number of all Assigned Risk Plan policies with effective dates during the calendar period listed above.



Residual Market Total Premium Volume

Second Quarter Data Reported through June 30, 2018

Total amount of all Assigned Risk Plan premium with effective dates during the calendar period listed above.





Residual Market Demographics

Total Premium Distribution by Size of Risk

Second Quarter Data Reported through June 30, 2018

The total number of Assigned Risk Plan policies reported to NCCI by Direct Assignment and Servicing Carriers in a premium range as of the date listed above.

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0–2499	845	56.0%	\$1,002,321	12.8%	\$1,186
\$2500–4999	289	19.2%	\$1,036,812	13.2%	\$3,587
\$5000–9999	182	12.1%	\$1,300,166	16.6%	\$7,143
\$10000–19999	121	8.0%	\$1,672,972	21.3%	\$13,826
\$20000–49999	54	3.6%	\$1,528,319	19.5%	\$28,302
\$50000–99999	16	1.1%	\$1,093,566	13.9%	\$68,347
\$100000–199999	0	0.0%	\$0	0.0%	\$0
\$200000 +	1	0.1%	\$213,898	2.7%	\$213,898
Total	1,508	100.0%	\$7,848,054	100.0%	\$5,204

Second Quarter 2017 Data for Comparison

Premium Interval	Policy Count	% of Total Policies	Total State Premium	% of Total Premium	Average Premium
\$0–2499	901	55.9%	\$1,014,978	10.8%	\$1,126
\$2500–4999	298	18.5%	\$1,079,732	11.5%	\$3,623
\$5000–9999	183	11.4%	\$1,293,261	13.8%	\$7,067
\$10000–19999	129	8.0%	\$1,788,246	19.1%	\$13,862
\$20000–49999	79	4.9%	\$2,291,748	24.4%	\$29,009
\$50000–99999	18	1.1%	\$1,116,534	11.9%	\$62,029
\$100000–199999	3	0.2%	\$364,055	3.9%	\$121,351
\$200000 +	2	0.1%	\$432,895	4.6%	\$216,447
Total	1,613	100.0%	\$9,381,449	100.0%	\$5,816



Residual Market Demographics

Residual Market Top 10 Classification Codes by Policy Count Second Quarter Data Reported through June 30, 2018

The top 10 governing class codes by total policy count—policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Policy Count	% of Policies
1	5645	Carpentry Construction of Residential Dwellings Not Exceeding Three Stories in Height	85	5.6%
2	5551	Roofing-All Kinds & Drivers	83	5.5%
3	7219	Trucking: NOC-All Employees & Drivers	69	4.6%
4	5606	Contractor - Project Manager Construction Executive Construction Manager or Construction	65	4.3%
5	5474	Painting NOC & Shop Operations Drivers	50	3.3%
6	8835	Home Public and Traveling Healthcare All Employees	49	3.3%
7	9014	Janitorial Services by Contractors-No Window Cleaning Above Ground Level & Drivers	44	2.9%
8	5437	Carpentry-Installation of Cabinet Work or Interior Trim	44	2.9%
9	8810	Clerical Office Employees NOC	33	2.2%
10	8380	Automobile Service or Repair Center & Drivers	26	1.7%

Residual Market Top 10 Classification Codes by Premium Volume Second Quarter Data Reported through June 30, 2018

The top 10 governing class codes by premium volume written on total policies issued by Servicing Carriers and Direct Assignment Carriers in this state as of the date listed above.

Rank	Code	Description	Premium	% of Premium
1	5551	Roofing-All Kinds & Drivers	\$673,759	8.6%
2	5645	Carpentry Construction of Residential Dwellings Not Exceeding Three Stories in Height	\$632,368	8.1%
3	7219	Trucking: NOC-All Employees & Drivers	\$468,815	6.0%
4	5606	Contractor - Project Manager Construction Executive Construction Manager or Construction	\$316,550	4.0%
5	8835	Home Public and Traveling Healthcare All Employees	\$245,981	3.1%
6	7090	Boat Livery-Boats Under 15 Tons-Program li-State Act	\$228,226	2.9%
7	5437	Carpentry-Installation of Cabinet Work or Interior Trim	\$225,033	2.9%
8	0042	Landscape Gardening & Drivers	\$179,299	2.3%
9	5474	Painting NOC & Shop Operations Drivers	\$153,552	2.0%
10	5022	Masonry NOC	\$153,412	2.0%



Glossary of Terms

Applications Bound—The applications that are actually assigned to a Servicing Carrier or Direct Assignment Carrier (if applicable).

Earned Premium or Premiums Earned—That portion of written premiums applicable to the expired portion of the time for which the insurance was in effect. When used as an accounting term, “premiums earned” describes the premiums written during a period, plus the unearned premiums at the beginning of the period, less the unearned premiums at the end of the period.

In Force (Policies/Premium)—All policies and associated estimated premium that are current as of a given date.

Incurred But Not Reported (IBNR)—Pertaining to losses where the events that will result in a loss, and eventually a claim, have occurred, but have not yet been reported to the insurance company. The term may also include “bulk” reserves for estimated future development of case reserves.

Loss Ratio—The ratio of total incurred losses to total earned premiums in a given period, expressed as a percentage. The formula for loss ratio is $(\text{loss} + \text{loss adjustment expense}) / \text{earned premium}$.

Premium Bound—The total estimated annual premium on bound applications.

Underwriting Gain/ (Loss)—The financial statement presentation that reflects the excess of earned premium over incurred losses.

VCAP[®] Service—Voluntary Coverage Assistance Program is a supplemental program to NCCI’s Workers Compensation Insurance Plan. As part of NCCI’s strategic vision of maintaining and depopulating the residual market, NCCI’s **VCAP[®] Service** redirects coverage opportunities for employers to voluntary market insurers, which generally provide coverage at a lower cost. **VCAP[®] Service** provides an additional source for producers and employers to secure voluntary workers compensation coverage prior to entering the residual market for coverage.